

TEACHERS' RETIREMENT BOARD  
BUDGETS AND AUDITS COMMITTEE

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SUBJECT: Internal Audits Follow-up Status Report

ITEM NUMBER: 13

ATTACHMENTS: 1

ACTION: \_\_\_\_\_

DATE OF MEETING: July 11, 2002

INFORMATION: X

PRESENTER: Way Lee

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In accordance with Internal Auditing Standards (IA Standards), we have taken steps to determine the adequacy, effectiveness, and timeliness of actions taken by management on reported audit engagement observations and recommendations. This includes conditions reported by CalSTRS' external auditors as well as those reported by the Office of Audits.

At Attachment 1 we have provided a report on the unresolved conditions from CalSTRS' internal and external audits. Unresolved conditions are those conditions for which management is in the process of implementing corrective action. The last column of the report identifies the current status of corrective actions taken by management in response to observations and recommendations.

At the request of the Board, we no longer report on those conditions that the Office of Audits previously reported as being resolved. Resolved conditions are those for which management has effectively implemented corrective action or for which senior management or the Board has decided to assume the risk of not correcting the reported condition.

IA Standards recognize that senior management is responsible for deciding the appropriate action to be taken in response to reported observations and recommendations and that management may decide to assume the risk of not correcting the reported condition because of cost or other considerations. CalSTRS' Audit Chief is responsible for assessing management's action and determining the nature, timing, and extent of follow-up procedures necessary. In determining appropriate follow-up procedures, the IA Standards allow the Audit Chief to determine whether management's oral or written response shows that action already taken by management is sufficient when weighed against the relative importance of the condition. On such occasions, follow-up testing or verification can be performed as part of the next audit of the program or activity in question.

**UNRESOLVED CONDITONS From CALSTRS' Internal & External Audit Engagements, Status as of 6/13/02**

<b>Auditee</b>	<b>Audit # / Audit Activity</b>	<b>Period Reviewed</b>	<b>Report Issue Date</b>	<b>Reported Condition</b>	<b>Resolution or Status of Reported Condition</b>	<b>F/Up Status</b>
Disability Services (D/S), Client Benefits & Services Branch (CB&S Br.)	#A-96024 Disability Benefit Application Process Audit	CY 1996	6/98	1. Standard Operating Procedures for the Disability Services Program have not been updated.	Concur & in progress. The D/S Division is working as part of a CB&S Br. Procedures Project team. The team is charged with the responsibility to develop the format and criteria for the standardized business area procedures. Their oversight encompasses the development and deployment of written procedures to all CalSTRS staff. Due to the implementation of the START system, all business procedures needed to be re-written to include integration points with the START system. The team estimates that the project will be completed by June 30, 2002.	A, C
Disability Services (D/S), Client Benefits & Services Br.	#A-97026 Payments & Adjustments of Disability Benefits (aka Disability Benefits Audit)	1/96 to 9/97	8/98	1. The D/S section has not developed or updated written 1. policies and procedures to 1. identify its current critical 1. processes and related activities.	Concur & in progress. (Same as response above for audit#A-96024).	A, C

**LEGEND for F/Up Status:**

**A** - Management concurred with reported condition  
**C** - Management is in the process of implementing corrective action

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Service Retirements Div., Client Benefits & Services Branch	#A-99032 Inactive Member Accounts	7/94 to 3/99	3/00	The Service Retirements Div. does not have adequate internal controls to ensure that inactive refunds are made only to those members entitled to the refund.	Concur & in progress. As a means of improving the internal controls associated with the processing of both inactive and active member refunds, the Service Retirement Div. revised the Refund Application (RF 1360) process to include a notary signature. The decision to include a mandatory notarized signature was made to ensure that the person requesting a refund of the contributions and interest is the actual member of our system, thereby protecting the integrity of the system. The application revision has been completed and is now in the approval stages.	A, C
Office of Audits, Admin. Branch	External CPA's Management Report for the YE 6/30/01	FY 00/01	9/21/01	<b><i>Perform an Independent Post-Implementation Review of the START System:</i></b> An independent Post-Implementation Review should be conducted to assess the effectiveness of the development and implementation of CalSTRS' START project, so that necessary recommendations	Concur & in progress. The Office of Audits (OOA) interviewed three consulting firms and discussed the scope of a Post-Implementation Review of the START project. Prior to the selection of a vendor (consulting firm), management questioned the value of the Post-Implementation Review at this time since management's primary concern is the accurate and timely payment of retirement allowances. Some of the proposed deliverables that would	A, C

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				and improvements can be made for future projects.	result from the scope of the Post-Implementation Review, as originally planned, may produce results that management is already aware of. Therefore, the OOA decided to narrow the scope of the Post Implementation Review to five areas that we believe to be critical to the effort of ensuring accurate and timely payment of retirement allowances. One of the three consulting firms will be contracted to perform this review soon after July 1, 2002. In addition to this review, OOA plans to perform several internal control reviews that will address the START data and processing concerns.	
Information Security Office, Admin. Br.	External CPA's Management Report for the YE 6/30/01	FY 00/01	9/21/01	<b><i>Update and Complete Disaster Recovery and Business Continuity Plans:</i></b> CalSTRS' current disaster recovery and continuity plans appear to be incomplete and outdated.	Concur & in progress. The Information Security Office has conducted a significant review and assessment of current CalSTRS' business continuity related documents. Work has begun on creating the infrastructure to support a department wide business continuity plan. An Executive Overview is being created for presentation. Special disaster recovery software has been tested and is currently being acquired.	A, C

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Information Security Office, Admin Br. & ITSD, Information and Financial Services Branch (I&FS Br.)	External CPA's Management Report for the YE 6/30/01	FY 00/01	9/21/01	<p><b><i>Ensure Timely Revocation of Terminated Users' Systems Access and Physical Access to the Sacramento Data Center:</i></b></p> <ul style="list-style-type: none"> <li>System access for several users had been active for several weeks after their respective termination dates.</li> <li>The security access control listing for CalSTRS' server room contained a large number of individuals authorized for physical access to the server room who no longer were employed by CalSTRS.</li> </ul>	<p>Concur &amp; in progress.</p> <ul style="list-style-type: none"> <li>The person that previously held the ISO position was re-appointed to the position in June 2002. The ISO will begin the resumption of work on an enterprise wide process to address this finding. At this point, no front-end administrative changes have been made.</li> <li>ITSD staff performed a review (in the Fall of 2001) to identify all individuals that had access to the computer room. Access was deleted for many individuals, as deemed appropriate. ITSD staff also coordinated with Admin. Br. Staff to obtain and review a monthly listing of individuals that have approved, authorized access to the room.</li> </ul>	A, C

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ITSD, I&FS Branch	External CPA's Management Report for the YE 6/30/01	FY 00/01	9/21/01	<p><b><i>Improve Change Migration Procedures:</i></b> Formal test and user acceptance documentation standards do not currently exist for changes made to the START system. Without this monitoring procedure, untested or unauthorized changes may be permitted to negatively impact the production environment and data.</p>	Concur & in progress. In January 2002, ITSD staff conducted a management team meeting to review and improve the Change Migration Procedures. The team initially focused on improving the primary communication / documentation vehicle, the migration letter. A new form was developed and is being piloted by the DBS (SB-1509) and the AB2700 projects. Full implementation is expected soon. Efforts to hire a permanent State employee into the change control function failed to turn up any interested State staff with the necessary experience. This effort is on-going. At the FYE, ITSD was looking at hiring a contractor with the requisite skills. However, budget issues slowed the process down and management will have to wait until the budget is signed for FY 2002-03 to procure these services.	A, C

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